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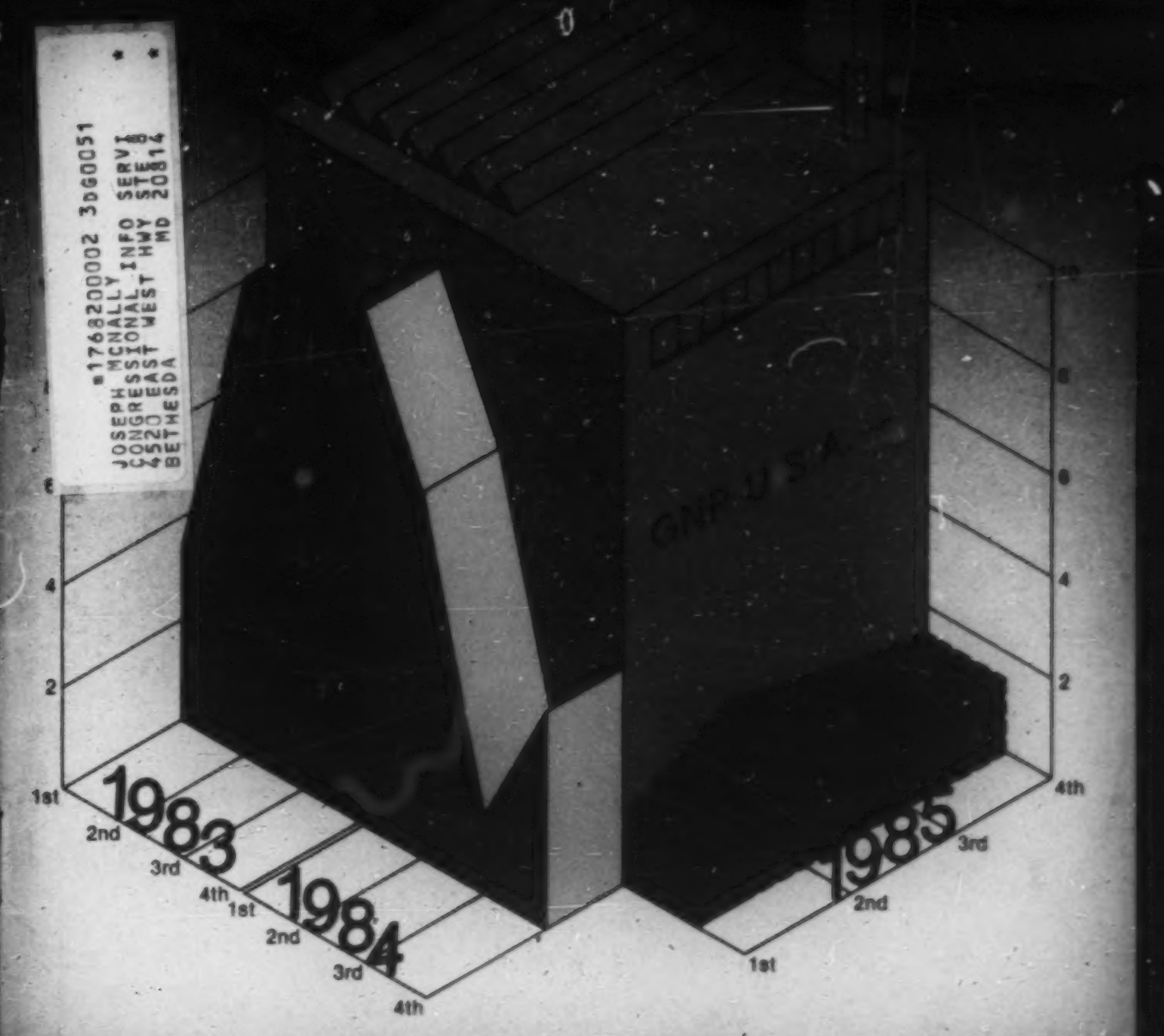
Midyear economic report:

Shade the forecast subdued



PurchasingWorld.

Helping you manage the business of buying

Vol. 29 No. 7-July 1985

Special report: MIDYEAR ECONOMIC REPORT

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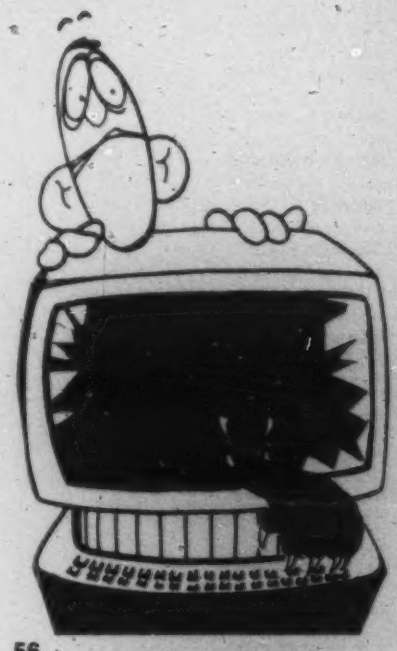

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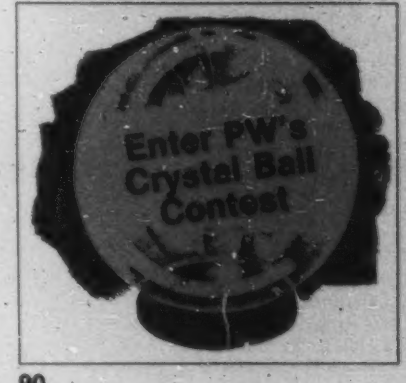

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PurchasingWorld (USPS 472 470) is published monthly by Huebner Publications, Inc., 6521 Davis Industrial Parkway, Solon, OH 44139. Printed in USA. Subscriptions: Available without charge to qualified purchasing executives in US manufacturing companies. Available to others in the US for $46/year; Canada $56/year. Foreign subscriptions are available for $70 airmail or $40 surface mail. Sole agent for all subscriptions outside the U.S.A. and Canada is J.B. Tiessart, Ltd., 154a Greenford Road, Harrow, Middlesex HA 1SQT, England. Second class postage paid at Cleveland, OH, and additional mailing offices. Editorial, circulation, and business offices: 6521 Davis Industrial Parkway, Solon, OH 44139.

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ISSN 0093 1659.

Postmaster: Send address changes to PurchasingWorld, 6521 Davis Industrial Parkway, Solon, OH 44139.

PW PREDICTS

Robert S. Reichard, executive editor

It's nearly unanimous: buying will be inflation-free

Count on another year of relatively inflation-free buying. That's the unanimous opinion of those queried for *PW*'s midyear look at the economy. That's not to say that there may not be some fractional acceleration from today's near-level trends. But it is a pretty amazing performance considering that the current business upturn is already more than two years old.

Here's what *PW* contributors see ahead:

■ *Dr. Louis Paradiso.* *PW*'s economic consultant is forecasting 5.5-6% GNP price increases from now through mid-1986. And in the producer finished goods category (which is more closely aligned to the industrial purchasing manager's purchase mix), Paradiso anticipates even more modest advances—ranging from 2% in the upcoming third quarter to only about 3.6% by mid-1986.

■ *Purchasing managers.* Two independent surveys tell the story here. *PW*'s survey suggests that industrial procurement prices will rise only about 3% for all of 1985, with many buyers downgrading estimates that were made earlier this year. An NAPM survey is put in qualitative rather than quantitative terms. Some 52% of queried purchasing executives now expect to keep tags at or under current levels over the next six months.

■ *Top management.* Corporate bigwigs are budgeting for only a 2.8% increase in the price of goods they manufacture. And, not one of the 15 subgroups analyzed is projected to advance in excess of 4.2%.

■ *Econometric models.* A special *PW* analysis of four of the leading models points to average GNP price advances for 1985 and 1986 on the order of 3.9% and 4%. In the producer finished goods sector, the comparable increases are put at only 1.3% and 3.2%.

Last but not least, cost-of-living forecasts contained in *PW*'s mid-year analysis are equally rosy. Thus the econometric model rundown referred to above points to only 3.5-4% increases through the end of next year. True, Dr. Paradiso isn't quite as optimistic. He sees about a 5% rate by mid-1986. But even this is quite low relative to the averages of the recent past.

The basically non-inflationary scenario is not limited to the U.S. One recent OECD forecast sees 1985 price hikes averaging out at or under 1984 levels. The specific rates of advance projected: U.S.—3.25%, Japan—2.25%, West Germany—2.25%, France—4%, Britain—5.25%, Italy—8.25%, and Canada—3.25%.

If nothing else, these relatively subdued overseas advances should permit foreign producers to hold the price line on sales to U.S. buyers, even if the dollar does tend to weaken a bit.

Energy price trends

The near-term energy outlook should present no problems.

Department of Energy analysts, in making this rosy forecast, base it on the assumptions that petroleum demand both here and abroad will show little change and that crude oil tags will remain soft. DOE puts the average quote for imported crude this year at only $27.90/bbl, off some 3.4% from 1984 levels.

Assuming this figure is correct—and there's little to suggest otherwise as oil stocks begin to build up again—here's a more detailed rundown on how some of the key energy sectors seem to be shaping up:

■ *Gasoline:* Some edging up may be in the cards, primarily because of EPA's ruling to reduce the lead content of the fuel. Other things being equal, this will add about 2¢/gal onto the average price when more stringent requirements go into effect in 1985. Even so, the increase over the next 12 months will come to only a modest 1.7% (see chart).

■ *Residual fuel oil:* With the ending of the British coal strike (a work stoppage that drove the price of substitutable residual fuel oil up on international markets), DOE looks for a 3¢/gal average drop for 1985. And continued declines are projected for the first half of next year.

■ *Natural gas:* Although there have been some isolated upward price adjustments, average wellhead prices are expected to remain stable. Nevertheless, end-use prices of the clean-burning fuel are projected to rise at the general rate of inflation of 5% over the next 12 months.

■ *Electricity:* The residential rate is projected to increase by only about 2% from 1984 to 1985. However, the cost of the plants added to the system in 1985 is expected to have a stronger upward pull on prices in the first half of next year.

PW PREDICTS

Chemicals

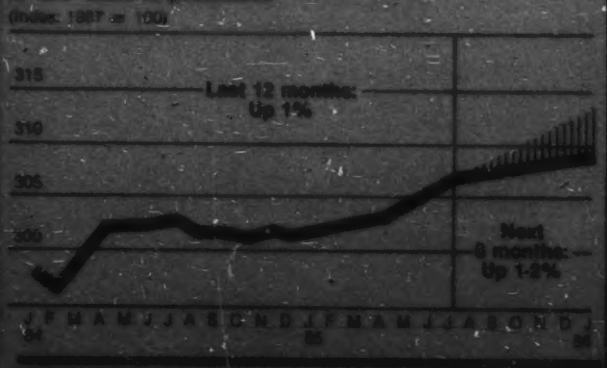
CURRENT SITUATION: Production gains have leveled off, with year-to-date totals running only about 1% above last year. And latest price averages are only 2% above a year-ago. Petrochemicals and plastics have been especially soft. Propylene and styrene monomers are both off about 2¢/lb. A few exceptions like benzene and chlorine are up. It is much the same in plastic resins where discounts remain.

DEMAND: Modest acceleration is likely in the coming months as inventories shrink and consumption picks up. Expect about 2.3% annual rate of growth over the next six months, though the year should be up only about 2% over 1984. **Plastic resins should do somewhat better,** with gains put at 3-4%. Problems in the farm industry point to a **1-2% drop in demand for agricultural chemicals.** 1986 looks like a carbon copy of 1985. And the industry is expected to do little more than keep up with the GNP (about 3% each year) for the rest of the decade.

SUPPLY: Today's buyer's market will continue, with the industry operating at only around 72% of potential. Little near-term change is anticipated as the year's 2% demand gain is offset by an increase in overall production potential. **Operating rates could decline in 1986 if estimates of a 5% capacity increase are correct.** This is very nearly the case in most key sectors.

PRICE OUTLOOK: Expect most of the announced price increases to be watered down or withdrawn. Reasons: continuing oversupply, disappointing demand gains, overseas competition, and renewed downward pressure on petrochemicals. **Producers are projecting only 3% increase for the year. Econometric models agree:** DRI sees only 2.2% increase in industrial chemicals over the next year. Wharton projects a 1.6% gain this year and 3% in 1986.

Chemicals & products



Typewriters

The latest generation of electronic portables is worth looking into. Models are available for as low as $279. Some contain a spelling check feature that can flag errors in up to 50,000 words. Sign of the times: Electronic portables are increasing at a 10% annual rate—four times the pace of recent years. Bigger electronic models should also do well. IBM has introduced models that sell for under $800. 1985 looks like it will be a good year for electronic typewriters—as many as 1.1 million units may clear the market this year.

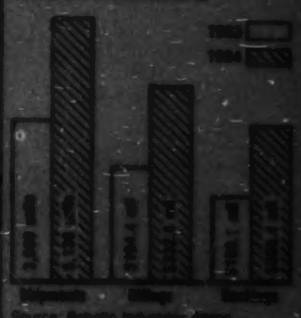
Electronic components

The sagging demand picture is having a sharp downward impact on prices. Some of today's bargain-basement quotes: (1) CMOS static RAMs now fetch only $3-4—a far cry from the $7-10 levels prevailing at the beginning of the year; (2) 256K EPROMs go for less than half the $20+ levels of just six months ago; and (3) 256K D-RAMS are available for just $4 —down from $8 at the beginning of the year. Elsewhere, more price erosion is expected in both connectors and relays.

Robots

Demand is still soaring—sales this year are expected to climb to near $495 million—up nearly 50% from last year, which in turn was a hefty 71% above 1983 levels. But because of competition, unit prices continue to be relatively stable. Machines are averaging in the $60,000 to 65,000 range. According to a new Robotics Industries Association tabulation, there were 14,500 robots in operation in the U.S. at the beginning of the year—up from only 9,400 a year earlier. Almost all of these were designed to perform industrial tasks such as painting, welding, and materials handling.

Robotic demand



Steel

Prices remain weak after falling 2-3% in the first quarter. Further declines are possible for some big buyers who try to emulate GM who has reportedly been able to shave 1-3% off flat-rolled products for the 1986 model year. Smaller users may have to pay a bit more by the end of the year—as import quotas finally begin to have some impact. Even so, the best the industry can hope for is a recovery

PW PREDICTS

Paper

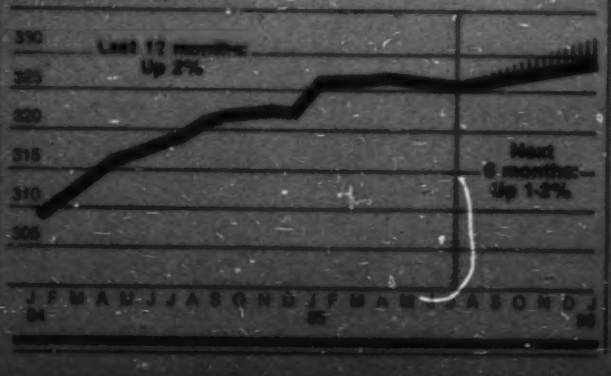
CURRENT SITUATION: Markets are subdued. Corrugated carton shipments are under year-ago levels. Another bearish factor is the strong dollar cutting the industry's export markets. **Quotes are soft. Linerboard is said to be going for $290/ton or less**—far under the official $350/ton list. Corrugated carton has also slipped. A modest newsprint boost has failed to hold and market pulp continues to be discounted.

DEMAND: Count on some second half pickup, with production likely to be up about 3% (to about 71 million tons). Consumption could be up a bit more because of a modest increase in imports. 1985 increases look to be shaping up as follows: uncoated groundwood—5.5%, uncoated free sheet—5%, coated papers—3.5%, unbleached kraft linerboard—3.5%, and unbleached kraft paper—4%. **Modest overall gains may continue longer-term.**

SUPPLY: No problems anticipated—operating rates in all major grades are under year-ago levels and high inventories provide added insurance. And the situation is not likely to change as modest amounts of new capacity are added—about 1.3% more this year, 1.7% in 1986, and 1.8% in 1987. Expect operating rates in uncoated free sheet to drop near 90% over the next few years, with an actual decline in solid bleached sulphate board. **Even coated groundwood supplies should be self-sufficient by 1987.**

PRICE OUTLOOK: Increases should be modest given the above supply-demand outlook. Some firming is expected in uncoated white papers by year end, with producers already testing the water with new boosts. Linerboard recovery seems certain—though it probably won't reach last year's $350/ton level by the end of the year. A survey of producers also suggests restraint—only a 3.8% boost is seen for 1985.

Paper & products



ing of first quarter declines—bringing 1985 averages up to 1984 levels. By early next year, another 2-3% boost is possible—just enough to put the big domestic mills back into the black again.

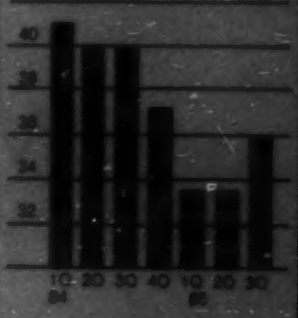
Copper

Things are improving—worldwide stocks of refined metal are down 650,000 mt over the last year-and-a-half. But prices continue to be soft because of the normal summer slowdown—they should stay in the 65-70¢/lb range. After the summer, recovery will be limited by modest 1985 demand gains (only about 2% here in the U.S.). The result is that the price will only be in the mid-70¢/lb range by year-end. There is a chance for tags to rise to 80¢/lb by mid-1986, but that should be the ceiling—such a level is almost sure to reactivate as much as 800,000 mt of currently shut-down capacity.

Polypropylene

After prolonged weakness, prices are finally beginning to show signs of firming. 2-3¢/lb increases have just been posted for homopolymers—with an even bigger 5¢/lb boost scheduled for copolymers. The increase brings the going asking price for general purpose homopolymer into the 35-37¢/lb range. This increase is given a good chance of sticking on a combination of reduced inventories, a high 90% operating rate, and good demand (up 9% so far this year). The long-term prognosis is also good—a big 40% demand jump is expected over the 1985-1990 period.

Polypropylene
(Transaction price—¢/lb.)



Trucks

Import competition is beginning to put downward pressure on larger-size models, especially dump trucks, garbage trucks, and medium duty types that make short, intercity hauls. Foreign makers already have close to 6% of this market and are aiming for a 15% share by the end of the decade. The result is bigger discounts for buyers (generally in the 10-20% range) even though these big trucks are selling at a 290,000 annual rate—the highest level in seven years.

Lead

The end of the big strike threats is putting the heavy metal under pressure. It means a 10% gain in Free-World mine production this year—more than offsetting last year's 4% decline. This produc-

Semiconductors

The once-booming semiconductor industry is taking its lumps these days with global sales now expected to be off about 3-5% this year.

That doesn't tell the whole story. Zero in on the U.S. and an even more bearish picture emerges. The Semiconductor Industry Association (SIA), for example, puts this year's domestic slippage at near 14%.

Behind the downturn: high inventories resulting from last year's hedge buying against shortages, plus the domestic slowdown in personal computer demand. On the latter score, PC sales are expected to advance less than 20% this year, a far cry from the 50% average gain over the previous three years.

Another factor behind the U.S. slide is overseas competition. Foreign producers are grabbing a bigger portion of the world market. This year, for instance, SIA figures suggest that the American share of the overall global market will come to only 40.4%, down significantly from the 44.7% reading of last year.

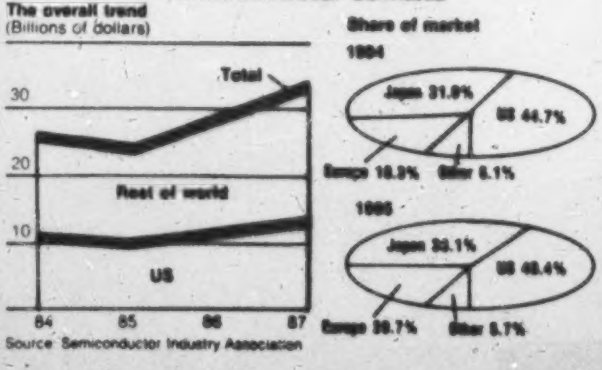
Moreover, the U.S. decline is likely to be across-the-board. In-Stat (a major electronics research firm), for example, sees both domestic ICs and discreet devices off by about the same amount in 1985.

All this, in turn, is having a sharp downward inpact on prices. One source estimates that 1985 quotes could be off as much as 8-10%. And In-Stat suggests an even more precipitous drop on the order of 11.5% per unit.

Next year's tags could also be soft as excess capacity continues to overhang the market, especially in 64K and 256K memories. On the other hand, 1986 physical demand should begin to turn up again. SIA puts U.S. producer dollar sales back at last year's $11.5 billion level.

And by 1987, SIA sees a big 20% domestic advance. But because overseas producers are also expected to move up sharply at that time, the U.S. share will probably remain under the 41% level.

Semiconductor demand



Source: Semiconductor Industry Association

tion level is far too high at a time when disappointing demand from the battery and gasoline markets is limiting consumption gains. In short, there is little to suggest near-term market strength. In fact, a further price decline is possible in the weeks ahead. On the other hand, the start of the battery season in late summer could cause a modest rally at that time—but only into the relatively low 20-22¢/lb range.

Stainless steel

Mill attempts to pare discounts on regular plate seem to have been successful—with only 24% off list available on Type 304 metal (vs. 28% previously). But only about half the discount reduction on sheet has held up—few sellers are able to limit price shading to the announced 25% level. In the meantime, stainless bar tags remain stable despite good demand—as one major producer pushes to increase its market share.

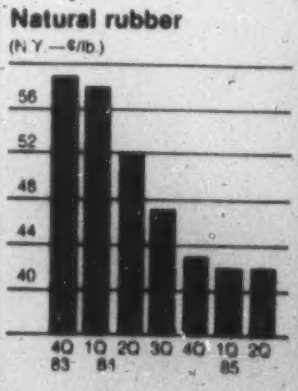
Aluminum

Weakness persists. Merchant ingot, for example, now moves at only 50¢/lb, and some producers are now also selling in this range. Tags on primary alloyed ingot are also shaky. Extrusion grades are down into the 60¢/lb range—far under the official 90¢/lb list. And National Aluminum's new policy which links product prices to free-market ingot clearly indicates that lists are now meaningless. Nevertheless, some modest recovery is seen by fall—as (1) global stocks come down a bit more, and (2) U.S. production cutbacks drop domestic output to near the 70% level. Best price bet: Tags should inch up to the upper 50¢ range by late 1985 and perhaps into the low 60¢area by early 1986.

Rubber

Look for continued softness in natural rubber quotes. Prices are now put at around 42¢/lb—off a hefty 28% from the highs of early 1984. And they could well edge lower (into the upper 30¢ range) by the end of the year as production continues to increase, demand levels off, and synthetic types become increasingly attractive alternatives.

Natural rubber



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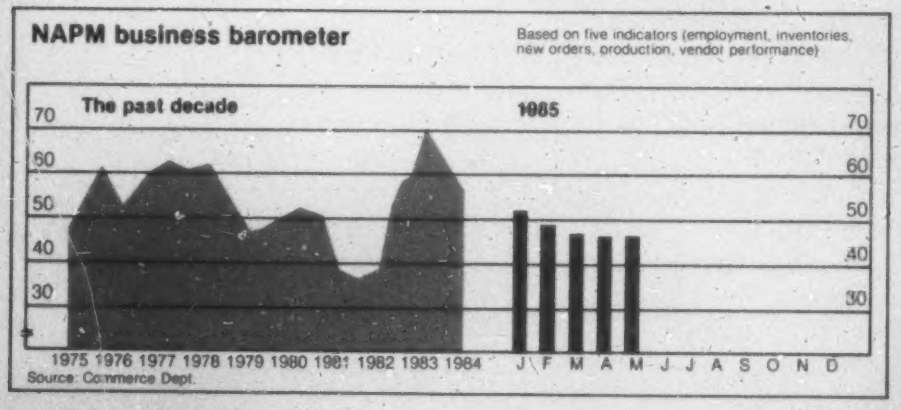
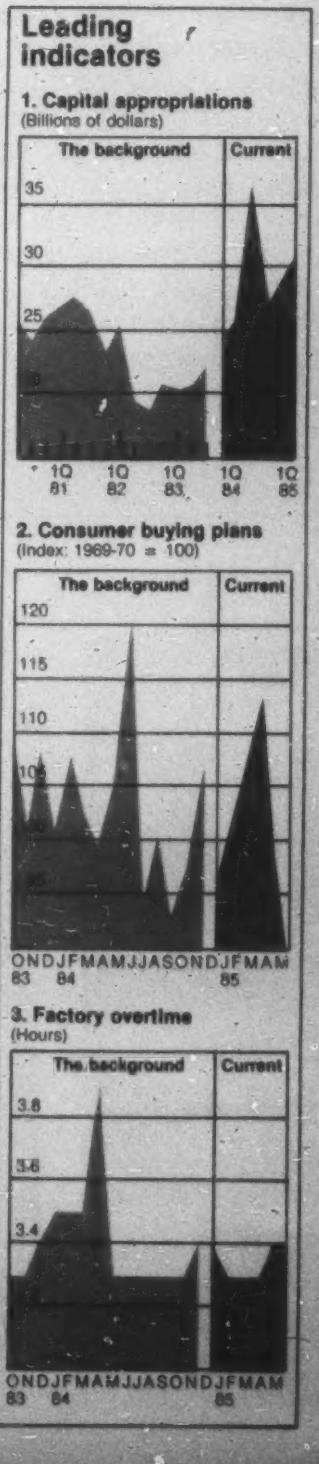
BUSINESS DATATRAK


NAPM business barometer
Based on five indicators (employment, inventories, new orders, production, vendor performance)
The past decade
1985
70
60
50
40
30
1975 1976 1977 1978 1979 1980 1981 1982 1983 1984
J F M A M J J A S O N D
Source: Commerce Dept.



KEY ECONOMIC TRENDS

Fed loosens up and market brightens

Expect another few quarters of continued growth, albeit at a relatively modest pace.

The key reason is the Fed's decision to continue its expansive monetary policies. Witness, for example, the recent cut in the discount rate followed by reductions in both business and consumer borrowing charges.

All things being equal, this should boost both near-term investment and consumer buying, thus keeping second half GNP figures in the plus column.

Other positive forces would have to include (1) relatively low stock-sales ratio, (2) a federal deficit which will top $200 billion this year, (3) continued increases in military spending, and (4) a still-booming construction market.

The latter is being aided by builders of rental units who are rushing to take advantage of favorable financing opportunities that could be eliminated by impending tax reform. Contract awards in March and April constituted the highest two-month total on record.

Even capital investment is looking fairly good at this point. During the last three-month period, for instance, plant and equipment appropriations (a lead indicator of actual spending) rose another 5% (see chart). And for the year as a whole, a 17% increase over 1984 is currently anticipated.

Some of these big appropriations could be cancelled or pushed forward. But any advance of this size, coupled with all-time high backlogs of unspent appropriations, does suggest that capital spending will remain positive for at least the rest of this year.

The current declines in interest rates seem to be coming just in time—at least as far as consumer spending is concerned. Reason: Families have been showing signs of holding back spending over the past few months. The Conference Board's "Buying Plans Index" dropped to 86.1 in May (see chart), the lowest level in more than a year.

Car sales, for example, are slipping, as only 7.2% of queried consumers said they were planning purchases of new cars over the next six months. And a similar trend has dropped plans for buying major appliances from 25.9% to 22.3%.

But, as suggested, lower interest rates should start turning things around, possibly by as early as August or September, and such purchases should then remain on a high plateau through the end of the year.

Also on an upbeat note, the employment picture (another key business barometer) remains buoyant, with the jobless rate remaining at 7.3% for the fourth consecutive month. The fact that factory overhead remains high can't be overlooked either. It is a sure-fire sign that factory

activity is holding its own.

But this is not to say that certain imbalances aren't creeping into the economy. For one, manufacturing is now making up a smaller and smaller portion of overall activity. At latest report it accounted for only 20% of total GNP.

Our negative trade balance is certainly not something to be complacent about either. Imports probably exceeded exports by about $35 billion in the second quarter, which is enough to trim about one percentage point from the economy's overall real growth rate.

These latter developments bear close monitoring. On the other hand, they should not be enough to precipitate a downturn over the next three to six months. Beyond that it's anyone's guess.

Mirror, mirror on the wall, why do import prices fall?

The U.S. dollar may be off a bit from recent peaks, but you would never know it by looking at still-declining import prices (down another 2.3% in the first quarter).

One reason behind the continuing drop is the lag between the value of the dollar and import prices. It takes time for any shift in exchange rates to be reflected in the actual price level.

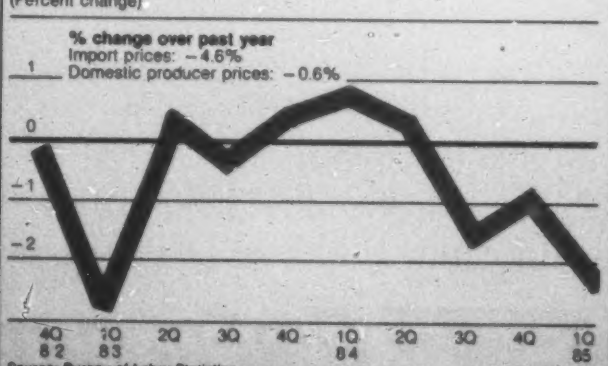
Then, too, the price decline in imports over the last few years has been far less than suggested by the dollar's strength. Implication: Overseas vendors still have lots of leeway to cut tags.

Whatever the reasons, import prices have declined pretty much across the board in recent months, with individual product groups shaping up something along these lines:

- **Crude materials:** First quarter import quotes dropped another 5.0%—highlighted by decreases for pulp and waste paper (-9.9%), crude rubber (-7.4%), metalliferous ores (-5.4%).
- **Intermediate manufactured products:** Quotes, off 2%, were down for the third consecutive quarter. Sharpest drops were in nonferrous metals (-6.2%), iron and steel (-2.2%), non-metallic mineral manufactures (-3.2%), and cork and wood manufactures (-3.8%).
- **Chemicals:** First quarter prices dropped another 1.4%, pushing them 5.3% under year-ago levels. Most categories were down except for fertilizers where seasonal rises offset the general weakness.
- **Machinery and transport.** Prices fell for the second consecutive quarter. Largest declines were in electrical machinery (-5.7%), metalworking machinery (-4.0%), office machinery (-2.8%), telecommunications equipment (-2.0%), general industrial machinery (-2.3%), and specialized machinery (-1.8%).

Import prices head still lower

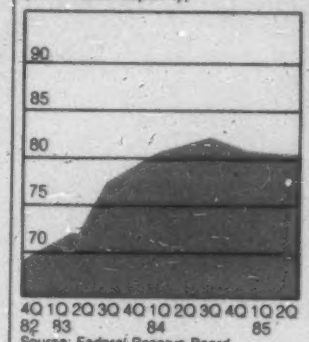
(Percent change)



Source: Bureau of Labor Statistics

Factory operating rates: no sweat

The overall trend
(% of rated capacity)



Source: Federal Reserve Board

Industry-by-industry
(Current rate—%)

Stone, clay, glass	77.0
Steel	71.4
Nonferrous	81.9
Fabric. metal products	77.9
Nonelectrical machinery	79.8
Electrical machinery	86.9
Automotive	86.7
Aerospace	79.6
Instruments	81.8
Textile products	77.5
Paper & products	94.8
Chemicals	71.0
Petroleum products	79.3
Rubber & Plastic products	90.5

Trim and fit, with a buyers' market to boot

There is still no sign of a capacity squeeze despite 2½ years of uninterrupted business upturn.

Operating rates on the factory level have actually been edging lower since mid-1984 (see chart). The reason is that industrial production has been virtually unchanged for almost a year. That's in sharp contrast to new production potential which has advanced some 3% over the same time period.

Now, for example, the typical U.S. factory is operating at 80% of its potential—well under the 83% reading of last year and nowhere near the 88% all-time peak hit in 1973.

And this situation prevails across the board, with operating rates in virtually every major industry below last year's highs.

In some sectors, rates are even below the 80% average. Industries hovering around the 70% mark include steel, aluminum, chemicals, and stone-clay-glass.

It's a continuing buyers market as every industry is running below its preferred rate, forcing vendors to look harder than ever for new business.

And the situation is not likely to change soon. Gains in industrial production, for example, will probably continue to lag capacity advances over the next 6-12 months thereby making operating rates decline even further.

CURRENT PRICES

Energy spurt drives prices up

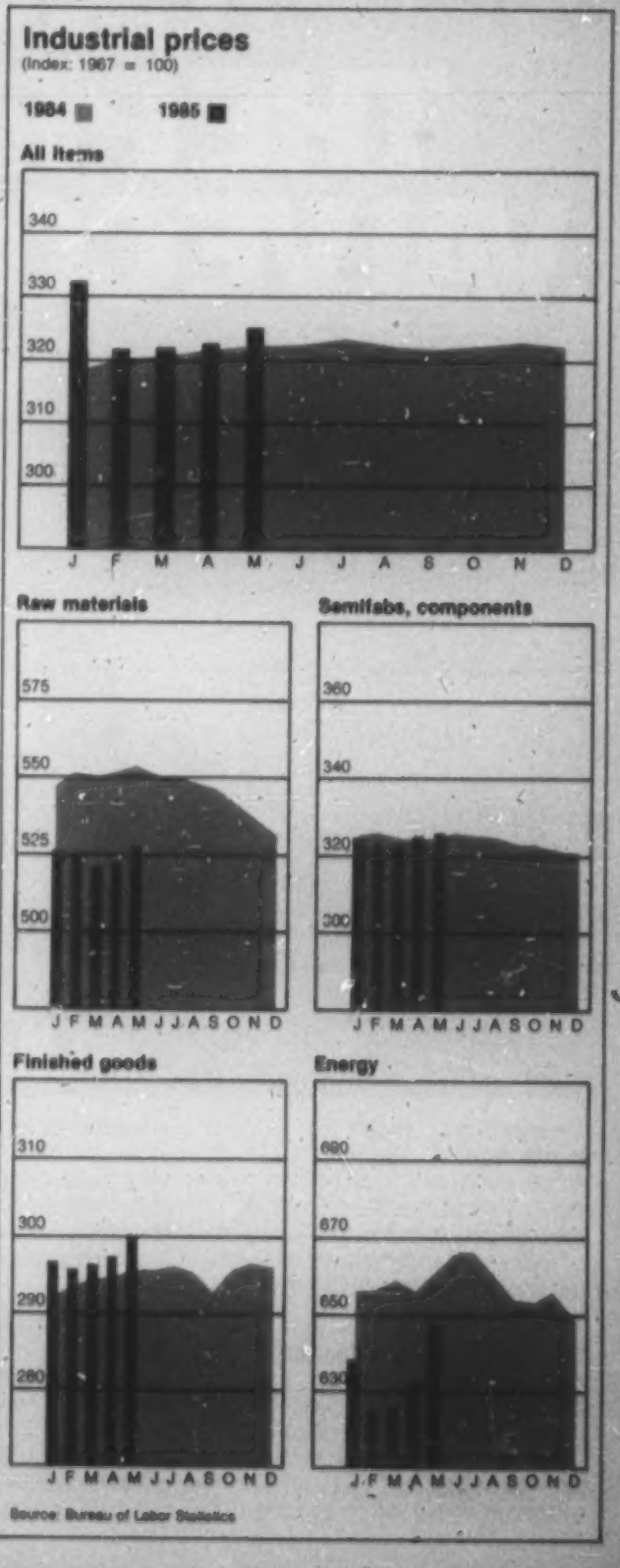
Don't be mislead by the 0.4% increase in industrial prices over the last month or so. That's the equivalent of a 3.6% annual rate of rise. It can be traced to the fuel and energy category which rose a whopping 2.3%, or over 25% at annual rate.

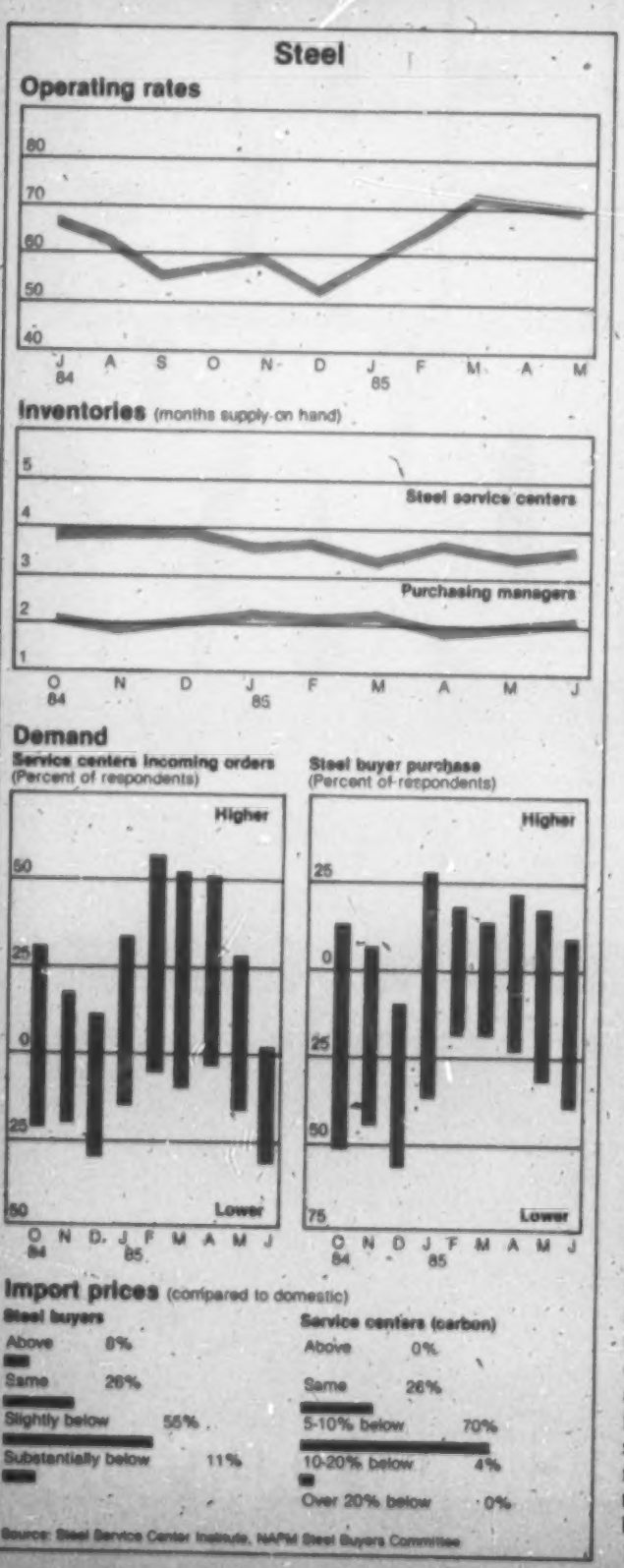
This energy spurt has to be regarded as temporary with sliding crude oil tags expected to exert new downward pressure here by late summer or fall.

Moreover, look at other sectors of industrial prices and the picture also suggests continued optimism. Thus crude material (excluding energy and food) actually declined 1.9% over the latest 30-day period. And the semi-fabricated and component

This month's breakdown

	Latest level (May)	% change from: Month ago	Year ago
Bearings	347.1	0.0	2.0
Bolts, nuts, etc	275.1	−1.2	0.0
Chemicals, inorganic	299.6	0.0	2.9
Chemicals, organic	350.5	−0.3	−5.7
Concrete products	320.2	1.0	3.5
Corrugated cartons	280.7	−1.4	6.8
Cutting tools, small	285.6	0.1	2.2
Electric lamps (bulbs)	344.3	1.7	1.2
Electronic components	198.7	0.0	3.7
Fans and blowers	358.9	0.0	3.6
Foundry and forge products	362.8	0.0	0.4
Fuel oil (residual)	1058.7	−2.7	−6.4
Furniture, commercial	350.9	0.3	2.9
Gasoline	576.7	5.8	−1.5
Glass, flat	221.8	0.6	−1.9
Glass containers	372.3	0.2	2.9
Gypsum products	317.5	−0.1	−12.9
Hand tools	373.8	−0.3	−4.7
Hand tools, power driven	231.8	0.3	4.2
Industrial furnaces	384.5	0.1	2.7
Integrating and measuring instruments	233.1	−0.1	2.0
Internal combustion engines	347.7	0.0	2.8
Lubricating oil	770.5	0.5	−3.4
Lumber millwork	310.8	0.4	2.2
Material handling equipment	294.5	0.2	2.4
Metal containers	358.2	0.1	2.9
Metal mill shapes (nonferrous)	315.3	−0.3	−3.5
Metal tanks	305.3	−0.2	−0.7
Motors and generators	352.0	0.4	3.5
Motor trucks	295.5	−0.2	4.7
Office and store equipment	154.9	0.0	0.5
Paperboard	282.1	−0.7	1.5
Paper boxes and shipping containers	273.7	−0.7	4.3
Paper office supplies	239.9	−0.2	−1.9
Paint	277.8	−0.9	2.9
Plastic resins	306.3	−0.6	−1.4
Precision measuring tools	264.0	0.0	4.2
Pumps and compressors	355.4	0.0	1.9
Refractories	372.3	0.6	2.9
Rubber belts and belting	355.5	0.6	2.9
Scales and balances	229.1	0.0	−0.8
Steel products	364.8	0.0	0.9
Switchgear	277.7	−0.1	−0.2
Textiles, synthetic fibers	157.2	0.3	−2.1
Textiles, gray fabrics	152.3	0.3	−0.9
Tires and tubes	239.6	0.2	−1.5
Transformers and power regulators	232.0	−0.3	2.1
Welding equipment	292.9	2.4	2.6
Wire and cable	204.2	0.4	0.7





subgroup remained virtually unchanged.

The list of products heading down over the last month in these two categories is equally impressive. It includes inedible fats and oils, industrial chemicals, plastic resins, aluminum, lead, zinc, copper, ferroalloys, most metal scrap, paperboard, and paper packaging.

Capital equipment prices also present no problems. Declines in farm machinery, integrating and measuring instruments, and transformers will offset increases in aircraft, photo equipment, and welding equipment.

Indeed about the only basic subgroup heading higher (aside from energy) is building materials, where boosts were recorded in softwood lumber, plywood, millwork, concrete products, paving and roofing products, and flat glass.

And even here there were some soft spots—in paint, hardwood lumber, and gypsum products.

But perhaps the most reassuring signs of all are the still-big percentages of overall declines in the 50 product lines regularly monitored by *PW*. (See accompanying table). Specifically, 19 lines actually slipped from the previous month.

That has been the pattern for the last month or so. Upshot: Government price analysts see no sign of any meaningful acceleration. As one official puts it, "Assuming energy tags simmer down, as they almost certainly will, industrial price averages should be up only about 1% for 1985 as a whole."

STEEL SCENE

Humbug! The next few months will be tight

Both purchasing managers and service centers seem to agree that the next few months will not be that great for the steel industry. Demand will slow due to both the usual summer slowdown and the failure of durable goods production to rise in recent months.

Some 38% of buyers responding to the latest NAPM Steel Buying Survey say they will be cutting back on receipts of the metal over the next three months. That far outweighs the 10% who contemplate increases. This 10%, incidentally, is the lowest since the recovery began over 2½ years ago.

Metal distributors responding to the latest Steel Service Center Institute (SSCI) survey are equally as glum about the next 90 days, with 31% anticipating a drop in near term orders and only 3% seeing any improvement.

But these same distributors are still not particularly worried about the year as a whole. Their feeling is summed up by Andrew Sharkey, SSCI president, who notes that a recent drop in flat rolled product sales was due to a previous inventory build-up on the part of special product manufacturers —and beyond this interruption the outlook still looks fairly good.

Also contributing to the service centers' optimism is the fact that the portion of plate shipments they have been handling has been on the rise.

Also, some 31% of the service centers and 41% of buyers say inventories seem to have come down over the last few months. The goal is for more paring with nearly three out of five service centers contemplating further reductions of stock over the next few months and not one planning any increase.

The reasons for this tight-fisted policy aren't too hard to find—ready availability and the expectation of a relatively flat consumption pattern over the next few months as durable goods production continues to tread water.

The plentiful supply situation is further confirmed by the absence of product lines on the shortage list. Service centers see no problems anywhere.

Buyers are also suggesting that foreign competition may be intensifying. Some 11% now report imported metal coming in "substantially under" domestic types. That compares with a 3% reading last month.

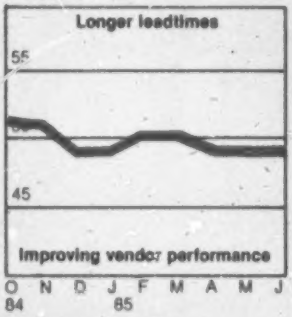
The big question is whether or not this will last as import quotas become an increasingly important factor. Service centers think not—37% expect to reduce their dependency on foreign metal by the end of 1985.

Further confirmation of a firming import market comes from a new steel study by Paine Webber. It notes that the spot price (essentially a reflection of import competition) is increasing about $20/ton this summer, partially recouping the big $60/ton slide of the past year.

Monthly procurement status report

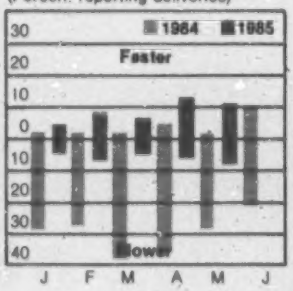
Leadtime index

A "diffusion" index based on 158 key commodities. Avove "50" indicates a tendency for leadtimes to streich out. Below "50" suggests improving vendor performance.

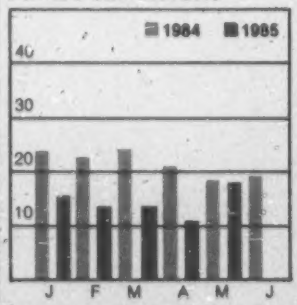


Delivery performance

(Percent reporting deliveries)

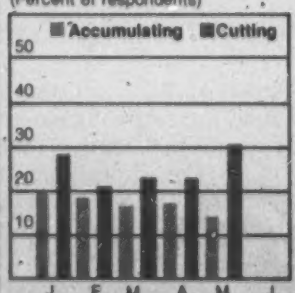


Forward commitments



Inventory strategy

(Percent of respondents)



Source: NAPM

PROCUREMENT STATUS

Summertime and the buying is easy

The start of the normally slow summer season virtually assures another few months of trouble-free procurement. But even without this added assist, there's plenty of evidence that things are pretty easy these days. To wit:

- **Leadtimes continue to edge lower.** *PW*'s exclusive leadtime index (at 49) is still holding under the neutral 50 mark, indicating that waits on average are still declining.
- **Faster deliveries still outnumber slower ones.** The NAPM Business Survey Committee finds 11% getting orders fast vs. 8% reporting slowdowns.
- **Not one item now appears on the NAPM short supply list.** That's been the case for four months now, reflecting ample supplies in all sectors.
- **Inventories are edging lower.** With little to worry about in delivery delays, parers (31%) now outnumber accumulators (14%) by better than 2-to-1.
- **Prices are still marking time.** The latest buyer surveys suggest that more PMs are getting additional concessions than are being hit with higher prices.

Also, few buyers feel that leadtimes can shrink much further. Consensus: Waits are about as low as they can go and could well inch up a bit by fall if the normal business pickup materializes.

And virtually everyone queried sees a continuation of a buyer's market. Observes one East Coast PM, "There's still nothing on the horizon to suggest any real change in the market—not with (1) essentially stable energy, raw material, and labor costs, (2) excess capacity, (3) still rising imports, and (4) vendors stumbling all over themselves to hold onto their share of what is now a basically flat market.

Leadtimes and availability

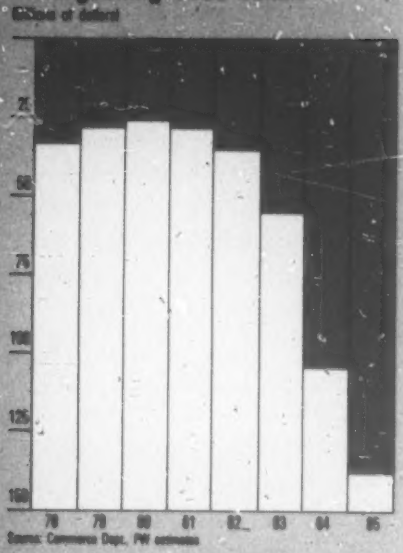
Chicago: Semiconductor leads are expected to drop further. But most other electronic parts seem to be holding. Declines (in weeks) are noted for potassium bichromate (½) and PVC (3-4). Coming out are cut-size paper (6-8), liquid chlorine (1) and sanded softwood plywood (2-3).

Cleveland: Some changes here. Coming in (in weeks) are hardwood lumber (1-2), softwood lumber (1), skids (1-2), corrugated boxes (2-3), folding boxes (2-3), steel canisters (1-2) and coil coating paint (4-5). But edging out are 2-ply fiber drums (2-3) and plastic resins (3-4).

Los Angeles: The summer lull has hit early—holding waits to these levels: galvanized steel (12-14), aluminum tubing (6), grey iron castings (5-6), domestic fasteners (4-6), custom seals and gaskets (4-6), electromechanical devices (6-8), and bearings (18-22).

...continued on page 74

A burgeoning trade deficit



million rate in the first and second quarters of 1986 as consumers start to pay their bills and sock a little more away.

Budget deficit

There's no good news on the Potomac. Uncle Sam will probably be swimming in about $200 billion of red ink for fiscal 1985. With a slowdown of the economy in 1986 (which will cut down on revenues), you can push that up to near $210 billion.

Much, of course, depends on whether Congress and the Administration will come up with a plucky deficit reduction plan. But even with such agreement, the deficit will continue at extraordinarily high rates for the forseeable future because it takes time—lots of time—for corrective action to show up on the books.

Trade deficit

The strong dollar—aided by high, deficit inspired interest rates—continues to make imports cheaper and our exports more expensive. As suggested earlier, manufacturing industries have had to bear the brunt of the onslaught, forcing them to cut output and lay off workers.

This year, the merchandise trade deficit may reach $140 billion, compared to only $61 billion and $107 billion in 1983 and 1984. And there's been little progress in stemming the tide via fixed agreements with our major trading partners, with only steel and textiles so far subject to major import quota limitations.

The trade deterioration is even more dramatic when you compare imports to exports. From 1983 to first quarter 1985, imports rose $84.6 billion, or 31%, while exports rose only $22 billion, or 12%, over the same time period.

What does the new, more cautious outlook add up to as far as purchasing is concerned? Aside from watching Washington for clues on interest rates, the budget, and trade deficits, Paradiso advises a continued close-to-the-vest inventory strategy for the following reasons: (1) ready availability and quick delivery and (2) sales uncertainties as the economy gradually tops out.

He also urges plenty of shopping around as competition, excess supplies, and a decelerating economy are creating good bargains, especially for buyers willing to make long-term volume commitments.

Continued emphasis on overseas sourcing is also indicated. As *PW*'s economic consultant puts it: "Even if the dollar does edge lower, it will be 6-12 months before it begins to make any meaningful impact on overseas procurement costs.

Concern clouds PM's positive look on economy

A modest business pickup may be in the making for late summer or early fall of this year.

If the results of two new purchasing surveys are anywhere near correct, the second half of 1985 could turn out a shade better than the disappointing first half. And only a very modest acceleration of inflationary pressures is anticipated.

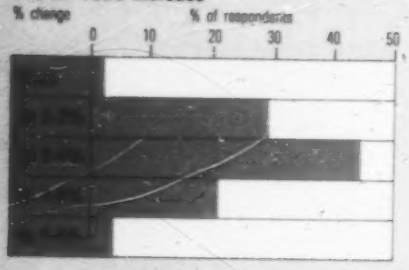
Few PMs seem very worried. Key buying parameters are expected to shape up along these lines:

- **Demand:** Roughly two of every five members of the NAPM Business Survey Committee are now betting that the next six months will be better than the first six months—double the number who feel that declines are in the offing.

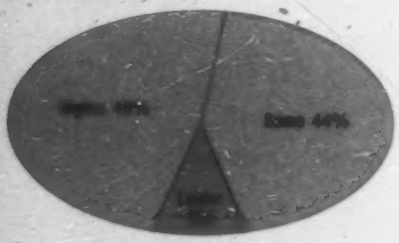
Buyers responding to a nationwide *PW* survey are in agreement. Some 56% expect some modest improvement in the second half—just

Prices: a buyer perspective

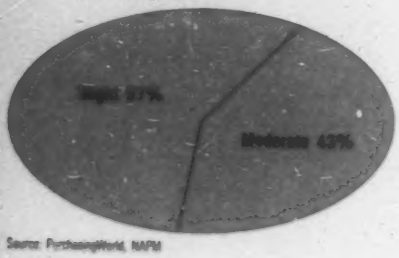
Overall 1985 increase



Second half direction



Second half magnitude



Source: PurchasingWorld, NAPM

about double the 29% who figure on some slippage.

Both groups have downgraded their earlier estimates for the year as a whole. But the vast majority still believe that 1985 will end up solidly in the plus column. Nearly three out of four NAPM Survey Committee members still see overall 1985 equaling or topping 1984.

■ **Prices:** There seems to be little concern about a major acceleration. *PW* readers now put the average 1985 price increase at around 3%—slightly under the 3.4% estimate they made at the beginning of the year. Only a handful of those queried see increases topping the 6% mark—and not one predicts increases in excess of 8%.

Viewed from another perspective, about one third of these PMs have downgraded their inflation forecast since the beginning of the year—far more than the 13% who now feel that their previous 1985 predictions were a bit on the low side.

Some of these buyers anticipate second half acceleration but they don't think it will be significant. NAPM Survey findings suggest that increases will be 1) selective rather than across the board, and 2) modest rather than severe. But not one single respondent sees a "severe" acceleration.

■ **Inventories:** "Keep 'em lean" is still the motto of the day. More than half the buyers responding to the *PW* survey (54%) contemplate some paring over the next six months—although most of these PMs say the cutting will be modest. The remaining 46% are about equally divided between those opting for the status quo and those who will do some accumulating.

■ **Supply** No major problems are anticipated. 70% of the NAPM Survey respondents say that their firms are operating below 90% of capacity—3% more than suggested at the beginning of the year. One reassuring fact is that 40% of these same respondents say that their firms' capital outlays will be higher than in 1984. And the vast majority of *PW* readers see no supply shortages ahead.

Survey respondents are also planning a series of strategies to keep things under control. Many buyers plan on making smaller purchases, placing more emphasis on just-in-time deliveries, working more closely with vendors, and better forecasting of needs.

Pricing isn't being ignored either, despite the absence of a major inflationary threat. Some of the approaches noted by buyers on this score: (1) negotiated price increases or no price increases, (2) insistence on price protection for upwards of one year, (3) increasing emphasis on overseas sourcing, (4) more value analysis, and (5) more long-term contracts.

Few of the more than 500 buyers queried in the combined surveys see a recession or serious price inflation ahead. Only 4% of the NAPM respondents are worried—the same percentage as six months ago.

That's not to say that everything is coming up roses. Some uneasiness is beginning to surface. Some 56% of the NAPM respondents now characterize themselves as "concerned." This is up from the 27% and 53% readings of last spring and fall.

Prices to remain in check

You can count on price restraint continuing in virtually every sector of the economy.

The latest Data Resources Inc. (DRI) quarterly price rundown tells the story. Not a single one of the 24 specific industrial product lines (see accompanying table) is expected to sport more than a 7% rate of rise over the next few years. **...continued**

Price outlook into 1987

(comparison of second quarter pricing)

Product	Percent change 85/84	86/85	87/86
Raw materials, energy			
Finished lubricants	1.1	2.2	2.5
Miscellaneous chemicals	2.3	4.2	4.1
Pulp & paper products	1.4	4.0	5.9
Crude supplies (Excl. fuel)	-7.4	2.8	2.8
Metals			
Iron and steel	1.5	6.3	5.0
Galvanized sheet & strip	1.2	7.4	5.3
Stainless plate	-0.4	4.6	4.0
Foundry & forge shop products	1.8	4.9	4.5
Domestic copper cathode	-1.7	8.9	4.3
Magnesium pig ingot	3.5	6.0	5.1
Aluminum shapes	-1.8	5.3	6.0
Components			
Rubber belts & belting	1.8	3.2	3.6
Laminated plastic sheets	2.6	3.7	4.2
Bolts, nuts, screws	1.0	3.1	5.4
Relays	0.5	5.3	1.9
Linear integrated circuits	-6.9	0.0	1.5
Machine shop products	4.2	5.0	5.5
Construction			
Prepared paint	3.9	4.1	3.7
Plumbing fixture & fittings	2.7	5.8	6.5
Sand, gravel, stone	4.2	6.8	7.0
Gypsum products	-10.1	2.8	3.9
Machinery			
Metalworking equipment	3.0	4.7	5.0
General purpose machinery	2.6	3.7	4.8
Motors & generators	3.7	5.2	6.0

Source: Data Resources, Inc. Cost Forecasting Service

The overall averages are equally impressive. DRI equations suggest only a 1.1% increase in finished producer prices this year—2.2% and 3.7% advances seen for 1986 and 1987.

Analysts at DRI, the Lexington, MA-based econometric consulting firm, attribute the continuing inflation respite to three factors: (1) the declining but still strong U.S. dollar, (2) weak energy prices, and (3) unemployment in excess of 7%. This unemployment figure is particularly important since it is expected to hold employment cost increases to just 4.3% this year. Figures for 1986 and 1987 are not that much larger—5.0% and 5.6%.

Keeping all of the above in mind, here's a more detailed rundown of the DRI price projections for key industries:

Energy: The refiners' acquisition cost for crude oil is expected to continue dropping, reaching a low $26.40/barrel by early 1987. Residual oil will also decline over the next few years—at an average annual rate of 1.2%. This, in turn, should maintain downward pressure on natural gas, with tags remaining basically unchanged on the producer level over the next few years.

Electricity rates should edge up only moderately. The producer price index here will advance at a 4.6% annual rate over the 1985-87 period. Coal hikes will also be restrained as advances stay in the relatively low 3.4% yearly range.

Industrial chemicals: Flat or declining hydrocarbon feedstock prices, a strong dollar, and burgeoning overseas capacity will combine to keep a lid on tags. This year only a fractional 0.3% average advance is projected, as petrochemical quotes offset some firming in chlor-alkalis. Future increases are projected at 3.1% for 1986 and 3.5% for 1987.

Steel: The impact of voluntary restraints will be slow in coming—primarily because of recent large import purchases to hedge against expected price hikes later on. Look for the official steel price index to move up only 3% this year. And even in 1986 and 1987, competition will hold gains to just above 5% a year.

Nonferrous metals: Slippage of the dollar, combined with lower inventories and modest demand gains, could make for a slow climb in copper (6.8% annually for 1985-87). Even so, the red metal will still be commanding only 83¢/lb by late 1987—well under the highs of a few years back.

It's much the same story for aluminum. Slow but unimpressive increases to only about 63¢/lb by late 1987 are projected—far under the 75¢/lb highs that prevailed as recently as last year.

Construction materials: A flat building pattern over the next 2.5 years will hold price increases down. The index for fabricated structural metal products should increase at the relatively modest rate of 2.3% in 1985, just 4.7% in 1986, and 5.6% in 1987. The index for concrete products should move up only 3.2% this year and then rise at a 6% or slightly higher rate over the next two.

Machinery and equipment: The small advances of the last few quarters will persist. Averages will rise just 2.4% this year, 3.8% in 1986, and 5.1% in 1987. Imports will continue to hold prices down. Incoming shipments of machinery are targeted to increase 17.5% this year, 7.2% in 1986 and 8.1% in 1987.

Electronic components: Manufacturers still have to work down bloated inventories. Add in excess capacity and slower demand increases and the price advance over the next six months is likely to be only 1.5%. But the next two years look more bullish—with average increases put at 3.6% in 1986 and 4.4% in 1987.

The DRI projections are still optimistic on the consumer price front. Energy prices through 1987 are expected to rise at only a 3.4% annual rate. Similar moderation is seen in food where increases are projected to average out near 4% over the forecast period. Even medical costs will moderate. The average annual rate is estimated at 6% through 1987—well under the 8.8% yearly advances noted over the last three calendar years.

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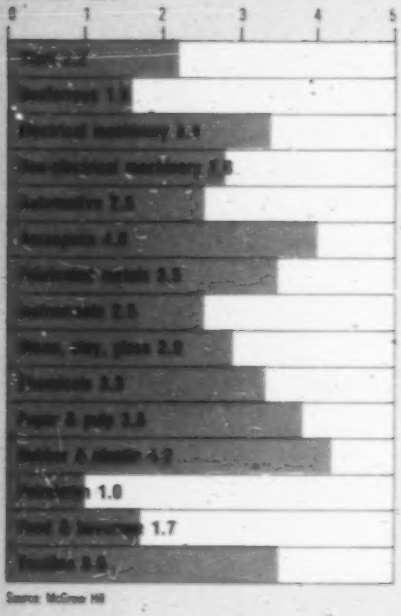
A view from the top

Overall factory trends

(% increase 1985/84)

Industry-by-industry price trends

(% increase 1985/84)



Source: McGraw Hill

Doubt grows as economy slows

Even with a potential recession being predicted for early 1986 by a lot of economic seers, and their own views that things aren't as snappy as they'd like, top business execs responding to McGraw-Hill's 1985 plant and equipment investment survey say they are fairly optimistic that 1985 will still turn out to be a good year.

A look at the survey's seemingly incompatible results (see accompanying charts) also reveals some growing doubt as first half of 1985 results prove disappointing and some negative trends creep into play.

Here are some basic trends projected from the survey results:

- **Demand:** Real sales should rise by a modest 3.7% this year—petroleum is the only one of 17 major subgroups failing to show a gain.
- **Prices:** Inflation, as measured by the prices manufacturers get for their products, will be held to a manageable 2.8%. Both non-manufacturing and plant and equipment prices will rise a bit faster (4.1% and 4.3%, respectively). But even these are tolerable.
- **Capital spending:** real outlays (spending corrected for inflation) will be up 13.2% for factories, although when the disappointing non-manufacturing outlays (down fractionally in real terms) are added in, the overall gain drops to just over 4.5%.
- **Capacity:** A big surprise here—with some hefty gains in store. The 13.2% increase in real capital spending for factories this year, when added to last year's big increase, will yield a 4.7% increase in production potential. Next year, the gain is expected to be an even more impressive 5.4%.

If nothing else, these figures should keep factory operating rates low. If you superimpose this year's expected 4.7% capacity increase on only a 3.7% real sales increase, you end up with a probable 1% decline in the average operating rate—a rate which at the beginning of 1985 was already at a meager 74.7%.

Operating rates, both overall and for most key industries, seem certain to remain far under so-called preferred levels—which, in turn, should continue to put a brake on any further price advances.

This price restraint is already evident in virtually all industrial sectors. A look at the accompanying chart shows that not one manufacturing industry will be sporting a price advance in excess of 4% this year.

In several instances, the estimated 1985 inflation figure is put around 2.5%. Included in the group are steel, nonferrous metals, automotive, instruments, petroleum, food, and beverages. In the service sector, airlines see rates doing little more than holding at relatively low 1984 levels.

The bad news

The McGraw-Hill survey is not without some negative aspects. For one, 1985 demand estimates are somewhat under levels projected last fall when real sales were expected to rise 4.4%, 0.7% more than currently projected.

Capital outlays have been pared a bit as well. The current overall real gain of 4.6% is 1.1% under the figure of an earlier survey. And the preliminary figures for 1986 aren't all that bullish either. A 2% decline is indicated even before making an inflation adjustment.

McGraw-Hill analysts hasten to add that extended projections usually turn out to be on the low side because many companies just do not have firm plans beyond one year. Nevertheless, they do feel somewhat uneasy, noting that "...the outright declines reported for 1986 create doubts about the sustainability of the current business expansion beyond the current year."

In light of this, anyone who is

overly optimistic about economic performance in the next 12 months must be catching the last of the three-martini lunches before the Administration's proposed tax plan sends them to eating at McDonalds.

Models present bullish view of economy

The nation's big econometric forecasting models are still bullish on America.

While a growing number of business analysts and economists (including *PW*'s own Dr. Louis Paradiso) are talking about the possibility of a modest downturn by early next year, the four models regularly monitored by *PW* are still projecting fair-sized gains into 1986.

The 3.6% average GNP advance projected for 1985 is unchanged from estimates made six months ago. And for next year, the 2.6% average advance now projected is actually above the 2.3% reading suggested at that time.

Many changes have been made in industrial production estimates, namely a toning down of 1985 advances from the previous 3.4% estimate to only 2.2% now. But here again there is some surprisingly good news—the average gain for next year is put at 2.7%—above 1985 and nearly double the 1986 projection made just six months ago.

None of the models signal any problems with inflation. The GNP price deflator is expected to average out near 4% for both this year and 1986. This is somewhat better than the 4.3% and 5.1% estimates for 1985 and 1986 suggested at the beginning of this year.

Behind the more optimistic price forecast: a continuing strong dollar, modest labor cost increases, ample or more-than-ample supplies, and still-soft energy prices.

The same downward-revised pattern noted for the all-inclusive GNP price deflator also shows up in finished producer prices—with the new estimate for 1985 put at only 1.3%—less than half the 3.1% projection made at the beginning of the year. And for 1986, an earlier estimate of 4.2% has been whittled down to 3.2%.

Consumer prices are expected to rise at a higher rate—3.6% in 1985 and 3.9% in 1986—primarily because of the big weight given to more inflation-prone service industries in this yardstick.

There is even something to cheer about on the interest rate front. Thus the prime rate is now projected in the 10%-plus range for 1985 and 1986—somewhat better than the 12.5% rates anticipated six months ago.

About the only disquieting figure is the continuing high unemployment rate. The 7%-plus figures previously seen for both years remain virtually unchanged.

Spokesmen for the four econometric models seem to agree that lower-than-expected increases in both inflation and industrial output should push the Fed to ease up a bit. This in turn would provide more encouragement for construction, big-ticket consumer purchases, and even capital equipment—areas which will then hype both GNP and manufacturing output.

Also worth noting: the close agreement among the four surveyed models. There is very little variation on the averages quoted above (in virtually all cases 1% or less). It should be very reassuring when four independent sets of projections from high-powered outfits with generally good track records come this close. ***PW***

PW's econometric model printout

Real GNP (% change)	1985	1986
DRI	3.2	2.3
Chase	2.9	2.4
Wharton	2.9	3.0
Merrill Lynch	3.0	2.8
AVERAGE	**3.0**	**2.6**
Industrial production (% change)		
DRI	2.4	3.0
Chase	2.0	1.7
Wharton	2.0	3.1
Merrill Lynch	2.3	3.0
AVERAGE	**2.2**	**2.7**
GNP price deflator (% change)		
DRI	3.5	3.3
Chase	4.2	4.2
Wharton	3.9	4.0
Merrill Lynch	4.1	4.4
AVERAGE	**3.9**	**4.0**
Finished producer prices (% change)		
DRI	1.1	2.2
Chase	1.4	3.6
Wharton	1.1	3.3
Merrill Lynch	1.5	3.8
AVERAGE	**1.3**	**3.2**
Consumer prices (% change)		
DRI	3.6	3.9
Chase	3.8	4.3
Wharton	3.4	3.3
Merrill Lynch	3.5	3.9
AVERAGE	**3.6**	**3.9**
Prime interest rate (%)		
DRI	10.7	11.3
Chase	10.3	10.0
Wharton	10.2	9.2
Merrill Lynch	10.3	10.4
AVERAGE	**10.4**	**10.2**
Unemployment rate (%)		
DRI	7.4	7.8
Chase	7.2	7.6
Wharton	7.4	7.4
Merrill Lynch	7.2	7.0
AVERAGE	**7.3**	**7.5**

BUSINESS DATATRAK

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Houston: Changes in some big-leadtime items. In a bit are large transformers (above 10,000 KVAs)—to 4-6 months, and motor control centers—to 3-6 months. High pressure heat exchangers are out to 8-10 months. No changes in galvanized steel, plastic resins, and corrugated.

Philadelphia: Electronic items have eased to lower weekly leads: CMOS ICs (12-14), transformers (10-12), PVC and Teflon hook-up wires (6-8), PC boards (8- d panel meters (12-16). Power supplies have been steady at weeks but are expected to drop somewhat by early fall.

Pittsburgh: No important changes here—with these weekly leads: paper bags (6), plastic bags (3-4), corrugated boxes (3-4), wire bound boxes (4-5), drums (1), fiberboard (3-4), laminating papers (6-9), steel strapping (2-3), seals (1-2), and polyethylene and PVC (5-6).

Leadtimes (in weeks)

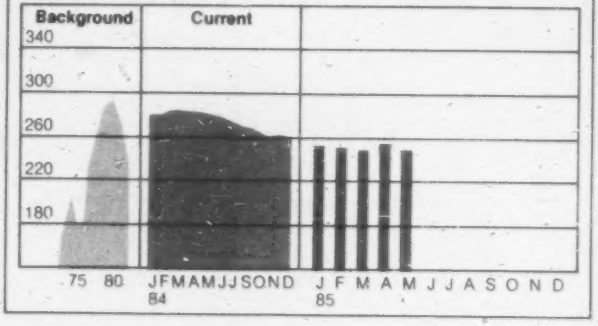
	Now	Month ago	Six months ago
STEEL			
Sheet (Phil)	4	4	9
C-R Sheet (Chgo)	6½	6½	5
Plate (Phil)	3½	3½	10
Plate (Chgo)	2½	2½	2½
Reinforced (Hous)	6	6	6
H-R Bars (Phil)	7	7	7
H-R Bars (Chgo)	3	3	3
Cold-Drawn Bars (Phil)	7	7	7
Galvanized (LA)	13	13	14
Galvanized (Chgo)	7	7	6
Structurals (Chgo)	4½	4½	4½
Structurals (Hous)	17	17	17
Tubing (Phil)	7	7	7
Grey Iron Castings (LA)	5½	5½	7½
Steel Castings (Hous)	11½	11½	11½
Forgings (Hous)	6	6	6
Pipe, Carbon (Hous)	13	13	13
ELECTRIC & ELECTRONIC			
Cables (Chgo)	8½	8½	8½
Capacitors (Chgo)	13	13	17
Circuit Breakers (Chgo)	6	6	6
Electromech. Devices (LA)	7	7	7
ICs (Linear) (Phil)	15	15	17
Motors (Phil)	12	13	15
Motors, 1000 hp & Up (Hous)	39	39	39
Printed Circuit Boards (Chgo)	13	13	13
Relays (Chgo)	15	15	15
Resistors (Chgo)	10	10	12
Resistors, Wirebound (Phil)	8	8	10
Transformers (Chgo)	10	10	10
LUMBER			
Hardwood (Pgh)	3	3	3
Hardwood (Clev)	1½	3½	3½
Plywood (Chgo)	2	2	2
Plywood (Phil)	1½	1½	1½
Softwood (Clev)	1	2½	3
Softwood (Phil)	⅛	⅛	⅛
Softwood (Pgh)	3	3	3
Particleboard (Phil)	2½	2½	2½
CHEMICALS-PLASTICS			
Adhesives (LA)	½	½	½
Napthalene (Chgo)	2	2	2
Paint (LA)	4	4	5
Paint, Coil Coating (Pgh)	4	4	4
Paint, Maint. (Cleve)	3	3	3½
Polyester Resin (LA)	2	2	2
Polyethylene Resin (Cleve)	3½	3	3
Polyethylene Resin (Pgh)	4	4	4
PVC Resin (Chgo)	3½	6	2½
PVC Resin (Pgh)	6	6	6
Titanium Dioxide (LA)	1	1	1
PACKAGING			
Bags, Kraft (Pgh)	5	5	5
Bags, Multiwall (Clev)	9	9	9
Bags, Multiwall (Pgh)	6	6	6
Cartons, Corrugated (Cleve)	2½	3½	3
Cartons, Corrugated (Hous)	2	2	3
Cartons, Folding (Phil)	6½	6½	6½
Cartons, Folding (Pgh)	3½	3½	3½
Cellophane Wrap (Phil)	5	5	5
Plastic Bags (Pgh)	3½	3½	3½
Plastic Pkg. (Pgh)	3	3	3
Shrink Film (Chgo)	6	6	6
Shrink Film (Clev)	1	1	3
Drums, Fiber (Pgh)	1	1	1
Drums, Steel, Std. (Pgh)	1	1	1
Wood Pallets (Chgo)	2½	2½	2½
Wirebound Boxes (Pgh)	4½	4½	4½
Strapping (Clev)	1	1	2½
Strapping (Pgh)	3	3	3
PAPER			
Fiberboard (Clev)	2½	4	3½
Glassine (Clev)	4½	4½	4½
Glassine (Pgh)	5½	5½	5½
Groundwood (Clev)	4½	4½	4½
Groundwood (Pgh)	7	7	7
Kraft (Clev)	1	1	1
Kraft, Bleached (Clev)	1	1	1
Kraft, Bleached (Pgh)	5	5	5
Kraft, Natural MFNS (Clev)	1	1	1
Laminated (Clev)	8	8	8
Tissue (Pgh)	5½	5½	5½
NON-FERROUS			
Aluminum Coil (Chgo)	11	11	11
Aluminum Plate (Chgo)	12	12	14
Aluminum Sheet (LA)	4½	4½	4½
Aluminum Sheet (Chgo)	11	11	11
Brass Castings (LA)	6	6	9
Brass Rods (Chgo)	2½	2½	6
Brass Sheet (Chgo)	2½	2½	7
Brass Tube (Chgo)	1½	1½	5
Copper Fittings (LA)	3½	3½	3½
Copper Mill Prod. (Pgh)	6	6	6
Copper Tube (LA)	7	7	5½
Copper Tube (Phil)	6	6	6
Lead (Pgh)	2	2	2
Magnesium (Pgh)	2	2	4
Manganese (Clev)	1	1	1
Nickel (Clev)	1	1	1
Nickel (Pgh)	2	2	2
Silicon (Clev)	1	1	1
Tin (Pgh)	3	3	3
Wire, Specialty (LA)	5	5	5
Zinc (Pgh)	2	2	2
MISCELLANEOUS			
Bearings, Domestic (Phil)	22	22	22
Bearings, Foreign (Phil)	26	26	26
Boilers & Furnaces (Hous)	35	35	35
Compressors, Centrifugal (Hous)	50	50	50
Compressors, Reciprocating (Hous)	39	39	39
Fasteners (Chgo)	1½	1½	1½
Fasteners (LA)	5	5	7
Fasteners, Std. (Phil)	2	2	4
Heat Exchangers, Carbon-alloy Steel (Hous)	21	21	20
Heat Exchangers, Hi-pressure (Hous)	39	31	31
Insulation Mat'l. (LA)	7	7	7
Machined Parts (Hous)	9	9	9
Pipes & Valves (Chgo)	2½	2½	2½
Pumps (Hous)	30	30	35
Pumps (LA)	9	9	9
Rubber, Synthetic (LA)	2	2	2
Rubber Hose (LA)	4	4	4
Tungsten Carbide Parts (Hous)	15	15	15
Valves, Cast Steel (Hous)	17	17	17
Welding Supplies (Hous)	5	5	5

BUSINESS DATATRAK

Raw material price barometer

(Index: 1967 = 100)

Latest month	252.9
Month before	257.1
Year ago	289.5

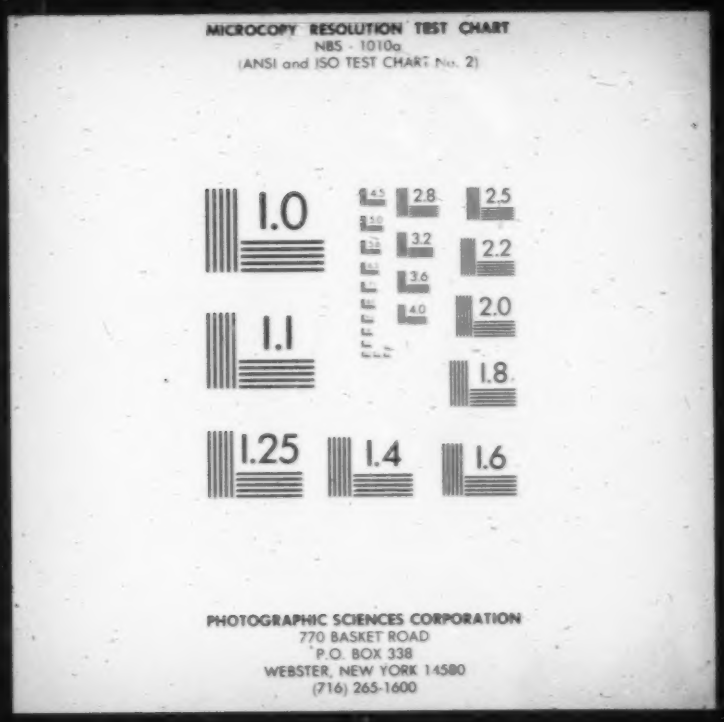


Latest spot market prices

	Latest price	Previous month	Year ago
FERROUS METALS			
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	367.00	367.00	347.00
Steel, structural shapes, Pitts., cwt.	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt.	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt.	25.10	25.10	24.40
Steel, bars, dlvd. Phila., cwt., merchant quality	23.95	23.95	17.50
Steel, bars, Pitts., cwt.	23.95	23.95	17.50
Steel, bars, C.R., Pitts., cwt.	29.25	29.25	26.00
Steel, plates, Pitts., cwt.	23.25	23.25	23.25
Steel, plates, H.R., Pitts., cwt.	23.25	23.25	23.25
Steel, sheets, C.R., Detroit, cwt.	27.10	27.10	27.10
Steel, strip, C.R., Chi., cwt.	35.30	35.30	35.30
Steel, basic wire, Pitts., cwt.	23.65	23.65	23.65
NONFERROUS METALS			
Aluminum, ingot, lb. (market place)	0.500	0.520	0.665
Antimony, in alloy, lb.	2.00	2.00	2.00
Beryllium-copper, cast ingot, lb.	5.35	5.35	5.20
Brass, red, 85%, [sheet], lb.	1.32	1.32	1.28
Brass, yellow, [sheet], lb.	1.27	1.27	1.23
Cadmium, ton lots, lb.	1.25	1.25	2.25
Copper, electrolytic, wire bars, refd., lb.	0.69	0.69	0.69
Copper sheet, over 24 in., lb.	1.41	1.41	1.37
Lead, common, N.Y., lb.	0.190	0.200	0.280
Magnesium, pig ingot, [99.8%], lb.	1.48	1.48	1.48
Mercury, 20 fl. lots, N.Y., fl.	295.00	293.00	324.00
Molybdenum Climax Oxide/bags, lb.	4.65	4.65	4.65
Nickel, electrolytic, producer, lb.	3.20	3.20	3.20
Platinum, producer, oz.	475.00	475.00	475.00
Silver, N.Y., oz.	6.18	6.28	8.67
Tin, Straights, N.Y., lb.	5.99	5.79	6.39
Zinc, Prime West, East St. Louis, lb.	0.44	0.45	0.53
Zinc, die casting alloy, No. 3, lb.	0.505	0.515	0.595
PAPER			
Uncoated book #3 offset, ton	850.00	850.00	810.00
Watermarked bond, ton	985.00	985.00	985.00
Gummed sealing tape, carton	16.25	16.25	15.45
Boxboard, mach. clay cld. recycled sheets 80 bright, .016, ton	495.00	495.00	475.00
Wrapping paper, std. distributor cost, kraft, basis wt. 50 lb., roll	28.00	28.00	28.00
Kraft linerboard, 42 lb., unbleached, ton	320.00	320.00	320.00
TEXTILES			
Burlap, 10 oz., 40", N.Y., yd.	0.324	0.352	0.297
Cotton drill, 1.85, 59", 68x49, N.Y., yd.	1.04	1.04	1.04
Cotton middling, 1", N.Y., lb.	0.594	0.602	0.782
Printcloth, 48", 80x80, N.Y., spot, yd.	0.60	0.63	0.76
Army duck, 37", 13 oz., yd.	1.70	1.70	1.90
Blended printcloth, 64", 78x54, yd.	0.70	0.70	0.76
20s combed yarns	1.95	1.95	2.16
Wool tops, N.Y., lb.	3.60	3.60	3.60

	Latest price	Previous month	Year ago
CHEMICALS			
Acrylonitrile, tanks, lb.	0.455	0.455	0.455
Ammonia, anhydrous, fertilizer, wholesale, tanks, ton	210.00	210.00	210.00
Benzene, petroleum, tanks, Houston, gal.	1.48	1.51	1.41
Caustic soda, 76% solid, drums, carlots, cwt.	26.00	26.00	26.00
Cresylic acid [over 25%], tanks, lb.	0.58	0.58	0.58
Formaldehyde, USP, 37% [12% to 15% meth.], tanks, lb.	0.106	0.106	0.106
Glycerine, synthetic, tanks, lb.	0.91	0.86	0.81
Methanol, syn., tanks, 4,000 gals., f.o.b. Gulf Coast plants	0.54	0.54	0.45
Naphthalene, crude, tanks, lb.	0.22	0.22	0.22
Phthalic anhydride, tanks, lb.	0.270	0.305	0.305
Polyethylene resin, low density liner film grade (market price), lb.	0.280	0.280	0.415
Polypropylene, homopolymer grade (market price), lb.	0.330	0.330	0.415
Polystyrene, general purpose grade (market price) lb.	0.35	0.35	0.41
Shellac, bone dry, N.Y., lb.	1.65	1.65	1.65
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	0.26	0.26	0.35
Sulphur, crude, ex-terminal, Tampa, Fla., lt.	157.50	157.50	140.00
Sulphuric acid, 66%, commercial, tanks, ton	56.85	56.85	56.35
Titanium dioxide, anatase, reg., carlots lb.	0.69	0.69	0.69
Xylene tanks, gal.	1.36	1.36	1.33
BUILDING MATERIALS			
Lumber, 2x4 fir, mbf, cl	303.95	302.25	316.25
Lumber, 2x2, pine, mbf, cl	304.60	299.95	312.40
Plywood, plyform, ¾", msf, cl	571.80	566.95	569.65
Plywood, ⅜", msf, cl	378.50	367.85	367.20
Cement, bulk, ton, tl	64.94	64.76	61.37
Sand, ton, cl	6.24	6.24	6.05
Ready-mix concrete, 3,000 psi/cu yd., 15 cu. yd.	47.74	47.64	45.50
Crushed stone, 1½", ton, cl	7.63	7.62	7.68
Concrete blocks, sand/gravel, 8"x8"x16", ea., tl	0.81	0.80	0.77
Gypsum sheathing, ½"x1"x8", msf, tl	207.94	207.94	203.15
Brick, common, per thousand, tl	181.10	180.28	176.03
Asphalt paving, AC-20	175.36	175.64	165.20
Concrete sewer pipe, 12", prem. joint, per foot, cl	7.23	7.24	6.97
FUELS			
Fuel oil, No. 6 or Bunker C, Gulf., bbl.	20.00	22.25	27.50
Fuel oil, No. 6 or Bunker C, N.Y., barge, bbl., reseller	25.50	28.75	31.75
Gasoline, 91 oct., reg., Los Angeles, rack, gal.	0.830	0.860	0.770
Gasoline, 94 oct., reg., Chi., tank car, gal.	0.833	0.818	0.790
Heating oil, No. 2, Chi., bulk, gal.	0.747	0.775	0.853
Heating oil, No. 2, N.Y., bulk, gal.	0.725	0.800	0.818
Heavy fuel, PS 400, Los Angeles, rack, bbl.	26.50	26.50	26.50
Jet kerosene, gal.	0.670	0.715	0.775
LP-Gas, propane, Okla., tank cars, gal. [incl. discount]	0.355	0.355	0.410
SCRAP MATERIALS			
Steel, No. 1, hvy., dlvd., Pitts., ton	69.00	72.00	95.00
Steel, No. 1, hvy., dlvd., Chi., ton	62.00	67.00	84.00
Copper, No. 1, East, wholesale buy, dlvd., lb.	0.545	0.570	0.585
Copper, No. 2, East, wholesale buy,	0.460	0.480	0.495
Brass, red, East, wholesale buy, dlvd., lb.	0.505	0.530	0.545
Brass, yellow, East, wholesale buy, dlvd., lb.	0.325	0.330	0.380
Alum., old sheet/cast, E., wholesale buy, dlvd., lb.	0.290	0.290	0.420
Alum., mixed clip., E., wholesale buy, dlvd., lb.	0.320	0.320	0.450
Zinc, old, East, wholesale buy, dlvd., lb.	0.140	0.140	0.230
Lead, clean solids, East, wholesale buy, dlvd., lb.	0.100	0.110	0.145
Paper, No. 1 mixed, dlr., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., Chi., ton	12.00	15.00	35.00
Paper, old corrug. box, dlr., N.Y., ton	10.00	10.00	32.00
Osnaburg cuttings, dlr., f.o.b. N.Y., lb.	0.10	0.10	0.14
White wipers, No. 1, dlr. buy, f.o.b. N.Y., lb.	0.23	0.26	0.33

[Sources: Metals Week, Engineering News-Record (20-city averages), Platt's Oilgram Price Service.]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